

Message Text

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ACTION EB-08

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TO SECSTATE WASHDC 6407

INFO AMEMBASSY NAIROBI

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E.O. 11652 N/A

TAGS: EAGR EGEN ZA

SUBJECT: ZAMBIA RAISES PRODUCER PRICES

1. THE GOVERNMENT OF ZAMBIA HAS ANNOUNCED SIGNIFICANT INCREASES IN PRICES PAID TO FARMERS FOR VARIOUS AGRICULTURAL COMMODITIES. THE INCREASE LONG RECOMMENDED BY THE IMF ARE AIMED AT INCREASING AGRICULTURAL PRODUCTION IN ZAMBIA AND LESSENING ZAMBIA'S DEPENDENCE ON IMPORTED FOOD STUFFS. THE MINISTRY OF LANDS AND AGRICULTURE ANNOUNCED ALSO THAT PRODUCER PRICES FOR BEEF AND MILK WOULD BE RAISED SHORTLY.

2. INCREASES ARE AS FOLLOWS: PC-PERCENT

MAIZE 8 PC SUNFLOWER 25 PC GROUNDNUTS 15 PC
SOYA BEANS 26 PC COTTON 15 PC COFFEE 38 PC WHEAT 12 PC
INCREASES HAVE BEEN ROUNDED TO THE
NEAREST PERCENTAGE AND ARE GIVEN FOR HIGHEST GRADE FOR
EACH COMMODITY. COMPARABLE INCREASES WERE ANNOUNCED
FOR LOWER GRADES AS WELL.

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3. COMMENT: (A) COMMERCIAL FARMERS AND OTHER PRODUCERS HAVE LONG ARGUED THAT LOW PRICES PAID TO PRODUCERS OF AGRICULTURAL COMMODITIES PROVIDE NO INCENTIVE TO FARMERS TO GROW MORE AND DIVERSIFY THEIR CROPS. THEY POINT OUT THAT PRICES FOR AGRICULTURAL INPUTS, PARTICULARLY MACHINERY AND FUEL HAVE INCREASED DRAMATICALLY OVER THE PAST TWO

YEARS AND AGRICULTURAL COMMODITY PRICES HAVE NOT RISEN SUFFICIENTLY TO COVER THESE COSTS. THE GOVERNMENT HOWEVER HAS NOT BEEN RESPONSIVE TO THE REQUESTS. IN ORDER TO KEEP THE COST OF LIVING DOWN FOR THE HEAVILY URBAN POPULATION CONTROLLED CONSUMER PRICES HAVE BEEN KEPT ARTIFICIALLY LOW. THE NATIONAL AGRICULTURAL MARKETING BOARD (NAMBOARD) DIRECTLY SUBSIDIZES MAIZE PRODUCTION AND FERTILIZERS SALES TO KEEP CONSUMER COSTS DOWN. THE COLD STORAGE BOARD OF ZAMBIA, THE NATIONAL MILLING COMPANY AND REFINED OIL PRODUCTS DO NOT PASS ON PROCESSING COSTS IN FULL TO THE CONSUMER THUS PROVIDING AN INDIRECT SUBSIDY. AN INCREASE IN PRODUCER PRICES WITH NO CONCURRENT INCREASE IN CONSUMER PRICES WOULD SIMPLY ADD TO THE CONSUMER SUBSIDY AT A TIME WHEN THE BUDGET CAN LEAST STAND THE STRAIN. THUS THE GOVERNMENT HAS BEEN VERY RELUCTANT TO RAISE PRODUCER PRICES.

(B) THE COMMERCIAL FARMERS WILL ARGUE THAT THE ANNOUNCED PRICE INCREASES, PARTICULARLY THOSE FOR MAIZE AND WHAT ARE INSUFFICIENT TO MEET ANTICIPATED INCREASES IN COST OF PRODUCTION. (THEY HAD ASKED FOR AN INCREASE TO A MINIMUM OF K8.50 PER BAD VERSUS THE NEW ANNOUNCED PRICES OF K6.80) A SPOKESMAN FOR THE COMMERCIAL FARMERS BUREAU SAID THE NEW WHEAT AND MAIZE PRICES NOT NOT HIGH ENOUGH TO ENCOURAGE ADDITIONAL PRODUCTION AND THAT THE DECLINE IN PRODUCTION OF THESE LIMITED OFFICIAL USE

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COMMODITIES MIGHT CONTINUE. AMOUNT OF INCREASE FOR BEEF AND MIL WILL HAVE MORE OF AN EFFECT ON PRODUCTION THAN ANYTHING ELSE. THE COMMERCIAL FARMERS CONSIDER CATTLE TO BE "MONEY IN THE BANK" AND WILL CONTINUE FARMING AS LONG AS CATTLE RAISING REMAINS VIABLE. LOW

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